

NCUA News

President Clinton Signs Credit Union Membership Access Act

"Today I am pleased to sign into law the *Credit Union Membership Access Act*, which will ensure that millions of Americans have the choice of getting consumer financial services from a credit union," President Clinton said in a August 7, 1998, statement released after the signing ceremony.

"The NCUA Board is delighted that President Clinton has signed the credit union bill into law," Chairman Norman E. D'Amours noted "The ground-swell of public support and Congress' overwhelming vote of confidence in the credit union system is a great testament to the continued indispensability of credit unions to our nation's financial system."

"Historically credit unions have invested in the little guy... the backbone of this country... when others have not, when others have not" Senate Banking Com-

mittee Chairman Alfonse D'Amato (R-NY) reiterated after the Senate passed the credit union bill 92 to 6 July 28. A few days later, House Banking Committee Chairman Jim Leach (R-Iowa) said, "credit unions are democracy at work in the marketplace," urging colleagues to support the bill seconds before a voice vote won final approval for H.R. 1151 on the House floor August 4.

The final bill, somewhat different than the original House version, contains no community service requirements. Some significant details of the final bill include:

- Enables credit unions to add groups of 3,000 or less to membership roles.
- Requires credit unions with \$10 million or more in assets that have outside

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NCUA Moves to Issue New Chartering Policy

Responding quickly to the most significant credit union legislation since the Share Insurance Fund was created in 1970, the NCUA Board plans to hold a special August 31 meeting to issue new, proposed chartering guidelines to permit field of membership expansions and revise conversion provisions. When the Board takes action later this month, it will be asking for comments on a completely updated NCUA Chartering and Field of Membership Manual.

Chairman Norman E. D'Amours said, "I'm encouraged by the commitment of the NCUA Board to expedite mandated changes as quickly as possible so credit unions can return to providing low-cost financial services to underserved communities and to employees of small businesses who want and need their service."



August 7, 1998 — President Bill Clinton signs the *Credit Union Membership Access Act* into law in the Oval Office at the White House. NCUA's entire Board joined the invited guests in witnessing the event. Board Member Yolanda Wheat is second from the left, Chairman Norman E. D'Amours is slightly to the right behind the President and Board Member Dennis Dollar is fifth from the end on the right.

NCUA has sent "Letter to Credit Unions 98-CU-16" explaining the time frames when the Board will introduce regulations to enact the new requirements concerning chartering, membership, conversions, accounting, membership business loans, the Share Insurance Fund, and prompt corrective actions.

News Briefs

- **August 4, 1998** — The House Banking Financial Institutions Subcommittee passed a fast-tracked regulatory relief bill. In it, Banking Committee leaders restored a provision dropped from H.R. 1151 that prohibits profit taking by insiders when a credit union converts to another type of financial institution.
- **July 1998** — The House passed the HUD Independent Agencies appropriations bill with \$2 million earmarked for the NCUA's Community Development Revolving Loan Fund. The Senate bill accords \$1 million to the Fund. A compromise will probably be worked out in conference in September.
- **5300 Reporting** — The June 1998 reporting cycle offered credit unions a revised PC 5300 Windows program to accommodate all Windows platforms. This is the last cycle credit unions will receive the DOS 5300 program. It will be eliminated entirely after 1998.

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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- **NCUSIF Equity** — The equity level of the National Credit Union Share Insurance Fund increased to 1.31 percent at June 30, 1998, based on insured deposits at year-end 1997. Ten credit unions had failed through August 1 at a cost to the Fund of \$1.8 million.

NCUA's Hiring Authority Restored

Less than a year after having its authority suspended, the National Credit Union Administration's appointing authority has been restored by the U.S. Office of Personnel Management (OPM).

The return of NCUA's appointing authority, effective August 1, is the culmination of a year-long cooperative effort between the two federal agencies to correct improper hiring practices. NCUA lost its appointing authority August 8, 1997, following an OPM review of the agency's delegated examining operations.

"This is a great accomplishment for NCUA," commented Chairman Norman E. D'Amours. "Many outside observers did not anticipate that we could rebound and have our hiring authority returned so quickly. The Board thanks NCUA staff for its hard work and commitment to correcting a flawed process and thanks OPM for the cooperation, advice and guidance it extended to this agency during this difficult period," D'Amours said.

During the past year, an internal NCUA oversight task force, under the direction of Len Skiles, worked closely with OPM's Employment Services to correct past practices, implement processes and procedures to prevent future problems, and to reinvent the agency's personnel operation to create a model human resource management program.

The OPM will retain only the delegated examining authority, which is an administrative function that allows OPM to rank the applicants who apply for an NCUA opening. That list of names is then forwarded to NCUA to interview the eligible candidates and to decide who will be offered the position.

Conversations With America

NCUA is supporting Vice President Al Gore's efforts to provide America with a more responsive government by joining fellow federal agencies in initiating a program that encourages two-way conversations, whenever possible, between NCUA representatives — Board members and executives — and the people we serve.

Our goal is to make it easier for stakeholders to share ideas on the quality of NCUA service and recommend changes directly to NCUA board members and agency officials. To do this, NCUA will begin publishing in the *NCUA News* newsletter and posting on our web site a list of upcoming public meetings and open forums where audiences can share ideas.



July 20 — Kathy Garner, chairman of the Association of Corporate Credit Union Executive Committee describes corporate credit unions' Y2K efforts with Board Member Dennis Dollar (right) and his Executive Assistant Kirk Cuevas. The committee also met with Chairman Norman E. D'Amours.

New Regional Office Phone Numbers

All NCUA regional offices and the AMAC have changed telephone numbers recently. Here is a complete list of the new phone numbers.

Region I	518-862-7400
Region II	703-519-4600
Region III	678-443-3000
Region IV	630-955-4100
Region V	512-342-5600
Region VI	925-363-6200
AMAC	512-231-7900

BOARD ACTIONS

JULY 30, 1998

NCUA Operating Costs Under Budget

The NCUA Board unanimously approved the Chief Financial Officer's mid-session 1998 budget, which forecasts operating costs will be under budget by \$4.5 million, or 4.1 percent, primarily due to the high number of vacancies that existed during the first six months of 1998.

Employee pay and benefits are projected to be \$4.8 million under budget for the year, although increased demands in employee travel (primarily tied to Y2K) and contracted services (tied to hiring and Y2K) add back over \$800,000 in expenses.

Amendments Proposed for Packaging Real Estate Pools

The NCUA Board unanimously voted to issue a proposal, requesting comments within 60 days, to clarify provisions of the regulation governing the purchase of eligible obligations.

The proposal clarifies that a federal credit union must grant a significant portion of the real estate loans it packages for sale on the secondary market, and that the loan pool must be sold promptly. The proposal also explains when an indirect lending arrangement is a loan and not the purchase of an eligible obligation.

Long-term Real Estate Loan Amendment Issued

The NCUA Board unanimously voted to issue a proposal, with a 60-day comment period, to incorporate into regulation the long-standing agency policy that federal credit unions may permit a nonmember to assume a member's long-term real estate loan when purchasing a member's home, provided loan terms and conditions are unchanged.

Charter and Insurance Conversions

Muskogee FCU

The NCUA Board unanimously approved the conversion of multi-group, \$50 million Muskogee FCU, Muskogee, Okla.,

to a community-based charter that will serve the people who live, work, worship, and attend school in low-income Muskogee and Cherokee Counties.

Sentry Federal Credit Union

The NCUA Board approved, by 2-to-1 vote, the conversion from multi-occupational to community charter for \$25.9 million Sentry FCU, Tinicum, Penn.

The credit union's sponsor Scott Paper Company sold its operation in 1996 and the credit union has nearly lost its entire potential membership. This charter change permits Sentry FCU to diversify its membership by offering credit union service to the people who live, work, worship, or attend school, businesses and other legal entities in Delaware County, Penn.

Long Beach Coastline FCU

The NCUA Board unanimously approved the conversion of \$36 million Long Beach Coastline Credit Union, Long

Beach, Calif., from a federal to a state-chartered, non-federally insured institution. The credit union pursued the conversion to gain greater field of membership flexibility and because board members believe the additional deposit coverage offered by a private insurance will assist their marketing efforts. A majority of voting members supported the conversion.

Jackson County Co-op Credit Union

The NCUA Board unanimously approved the request of \$7.8 million Jackson County Co-op Credit Union, Seymour, Ind., to convert from federal to private insurance coverage for member deposits. The credit union requested the action due to previously pending legislation that calls for restrictions on member business lending, and the credit union's board believes that increased coverage offered by a private insurer will benefit the members. A majority of voting members supported the conversion.

ABOUT INVESTMENTS

Market Risk Analysis and IRPS 98-02

The new Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities explains that a credit union that has a material position in complex securities, without measuring the risk, engages in an unsafe and unsound practice. The new policy provides the common sense that due diligence should increase in proportion to the risk of the potential investment. Interpretive Ruling and Policy Statement No. 98-02 (IRPS 98-02) goes into effect Oct. 1, 1998.



Whether it's a CMO, a structured note, or a callable agency, the standards for analysis set forth in IRPS 98-02 extend to all complex investments. The results of NCUA Board actions are, in part, to:

- 1) extend pre-acquisition and ongoing analysis to all complex securities, not just CMOs; and
- 2) permit the purchase of CMO/REMICs

that were prohibited under the FFIEC's high risk security test (HRST).

The rescission of a pass/fail test for CMOs, may give some brokers a strong impetus to market high-risk (heretofore "failed") CMOs. Brokers are already marketing other non-CMO securities with similar complex features (e.g., structured notes and callable agencies). Complex investments typically pump up current yield at the cost of prepayment risk (such as mortgage prepayments and callable maturities).

A rigorous pre-acquisition analysis of complex securities helps to balance the expectations of return against the realities of potential risk. Today's rate environment portends a scenario where investors may have a lot of cash to invest. By doing the risk homework ahead of the trade, credit unions can better identify and manage the inherent risks in all complex investment activities and diminish the prospect of winding up in an unsafe and unsound predicament.



Office of Community Development Credit Unions Presents Empowerment 2000

An intensive weekend of training and networking for small credit unions

NCUA is hosting "Empowerment 2000" weekend training at three locations this fall to heighten small credit union awareness of current issues and topics.

Each training session kicks off Friday evening with a 2-hour town meeting hosted by Chairman D'Amours. Participants should take advantage of this opportunity to raise burning issues about credit union regulation and credit unionism during this candid discussion with the Chairman and NCUA regional directors.

The town meetings are open to all credit unions although primarily geared to benefit smaller institutions. Saturday morning begins with a general session on volunteerism and mentoring followed by three track sessions.

Track I – Financial Management

Subjects: Analyzing financial statements, budgeting, policies and procedures.

Who Should Attend? Board members and managers.

Track II – Lending

Subjects: Loan participation, risk-based lending, collections, credit reports, mortgage lending, home equity, second mortgages, and Federal Home Loan Banks.

Who Should Attend? Board members, loan officers, committee members and managers.

Track III – Developing Effective CUs & Partners

Subjects: Strategic and business planning, administrative/audit, succession planning, disaster recovery education, and partnerships.

Who Should Attend? Board members, managers, proposed credit union groups.

Sunday opens with a continental breakfast. Presentation topics are credit union service organizations and funding.

Oct. 23 - 25, 1998

Radisson Hotel,
St. Louis Airport
11229 Lone Eagle Drive
Bridgeton, Mo. 63044
(314) 291-6700

Oct. 30 - Nov. 1, 1998

Wyndham Metrocenter Hotel
10220 N. Metro Parkway East
Phoenix, Ariz. 85051
(602) 997-5900

Nov. 6 - 8, 1998

Sheraton Biscayne Bay Hotel
495 Brickell Avenue
Miami, Fla. 33131
(305) 373-6000

Financial assistance is available on a first-come, first-serve basis. Register on NCUA's web site at www.ncua.gov/news/cdcu/emp2000.html. Please contact the Office of Community Development Credit Unions at 703-518-6610 with any questions



Y2K Compliance System Conversions

NCUA's Y2K Contingency Plan — Ensuring Credit Union Compliance (NCUA Instruction No. 13610.3), approved and effective January 22, 1998, outlines the administrative actions that NCUA may take if credit unions fail to meet established Y2K compliance milestones.

Some credit unions will not meet Sept. 30, 1998, renovation or Dec. 31, 1998, testing milestones for mission critical systems due to EDP system conversion plans scheduled for 1999. To avoid an administrative action, credit unions *must request* that NCUA consider granting an extension of renovation and testing milestones and a waiver of action. Under these circumstances, NCUA recommends that credit union officials:

- Notify NCUA as soon as possible to ensure that an extension of the milestone date may be considered;
- Contract with your EDP vendor to ensure a delivery date that will allow adequate time for testing interfaces;
- Obtain and review Y2K test data and results from other users or user groups, for the proposed system;
- Work, if possible, with other users or user groups involved in the testing phase to better plan for testing the new system in your credit union;
- Consider the test data, process, environment, and results of the user group testing phase, then provide additional testing information to your vendor to request testing that is specific to your credit union's products and services;
- Review your credit union's contingency plan and evaluate the outlined options;
- Develop and document testing plans for all system interfaces;
- Ensure your system will be implemented and operational by the July 31, 1999, milestone date.

By now, credit unions should be well into renovation and initial testing phases. NCUA will continue to work with credit unions and vendors to ensure Y2K readiness on all fronts as the millennium approaches.

MANAGEMENT CHANGES

Melinda Love, Kent Buckham and Herbert Yolles Named to New Posts

The NCUA Board has selected career managers to fill several executive posts in Alexandria headquarters effective August 31, 1998.

- Deputy Director of Examination and Insurance Melinda Love becomes NCUA deputy executive director.
- Associate Region II Programs Director Kent D. Buckham becomes deputy director, Office Of Corporate Credit Unions.
- Risk Management Division Director and Central Liquidity Facility President Herb Yolles becomes deputy director, Office of Examination and Insurance.

Melinda Love

As deputy executive director, Melinda Love will assist the executive director manage the day-to-day operations of NCUA.



Ms. Love assumes this position after serving as deputy director supervising operations in the Office of Examination and Insurance (E&I). Her NCUA career began in 1986 as an examiner in Northern California. She quickly advanced in the Region VI office as a principal examiner, problem case officer, supervision analyst, and supervisory examiner. Love participated in NCUA's management development program in the early 1990s, and she was an acting Region VI director of Special Actions.

Prior to joining NCUA, Ms. Love held numerous positions, including manager with the Department of Facilities Management at the University of California, Berkeley.

Melinda Love holds a degree in accounting and a MBA. She is a certified internal auditor and a member of the Institute of Internal Auditors.

Kent D. Buckham

As deputy director in the Office of Corporate Credit Unions, Kent Buckham will assist the director coordinate the examination and supervision of federal corporate credit unions nationwide.

Mr. Buckham's NCUA career began in 1976 as an examiner in Williamsport, Pa. He became a supervisory examiner in 1983 and was appointed deputy regional director of the Chicago office in 1988.



Mr. Buckham moved to Washington in 1992 as the director of Supervision, and in 1993 he was named deputy director of the headquarter's Office of Examination and Insurance. Buckham served as deputy executive director of NCUA in 1995, and in mid-1996 he was appointed associate regional director of Region II.

Kent Buckham holds a degree in business administration/accounting from Indiana University of Pennsylvania.

Herbert S. Yolles

Herb Yolles assumes the roll Ms. Love vacates, deputy director of E&I. As deputy, Mr. Yolles will work closely with the E&I director monitoring examination and supervision programs and procedures at federal and federally insured credit unions.



Mr. Yolles joined NCUA in 1978 as a staff accountant. He has served as a program analyst, director of Financial Operations and as NCUA controller and chief financial officer. For the past few years, Yolles was director of Risk Management and president of the Central Liquidity Facility and for the last four months has been acting deputy executive director. Before joining NCUA, he was an auditor with the U.S. Army Audit Agency.

Herb Yolles has an accounting degree from the University of Delaware, a MBA from George Mason University, and is a certified public accountant.

SIGNING

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audits to have them performed according to state accounting and licensing laws.

- Permits credit unions to convert to a mutual savings bank with a majority of voting members support rather than with a majority vote by all members as current NCUA regulations require. (See *News Briefs* for added legislative stipulations).
- Requires NCUA to adopt prompt correction actions for credit unions comparable to bank and thrift requirements, taking credit union uniqueness into account. The Senate added detailed recommendations found in last year's Treasury study – set net worth categories to classify credit union capital levels, set specific time frames when NCUA should respond if credit unions fail to meet capital targets, and consult and cooperate with state regulators to develop and implement prompt corrective actions.
- Restricts member business loans to 12.25 percent of assets. Loans under \$50,000 are exempt and credit unions have three years to bring portfolios into compliance.

J. Leonard Skiles Honored by Board Members



August 10, 1998 — Board Member Dennis Dollar, Chairman Norman E. D'Amours and Board Member Yolanda T. Wheat present J. Leonard Skiles, president of the Asset Management & Assistance Center, with a plaque honoring his exemplary performance "as one of the Agency's finest." Among the critical roles mentioned are acting NCUA executive director; chairman, Field of Membership Task Force; and chairman, Office of Personnel Management Task Force.

D'Amours Defends Defense CUs

by Charla Toth, contributing writer

NCUA and the Defense Credit Union Council have successfully persuaded the Departments of Defense and Treasury to give credit unions an equal opportunity to serve their members in commissaries.

When the Defense Commissary Agency (DeCA) decided to establish in-store financial services in commissaries, credit unions found themselves excluded by an informal DeCA policy stating only financial institutions holding Treasury General Accounts (TGA) could operate in commissaries. The Department of Defense (DoD) planned to allow only one TGA per base. Since on most bases a bank already holds the TGA, Treasury's decision automatically restricted defense credit unions from participating in DeCA's in-store "banking" program. "Unless you revise your position...you will do a great disservice to military servicemen and women," NCUA Chairman Norman E. D'Amours wrote in letters to DoD and Treasury.

David Lundahl, President/CEO of the Defense Credit Union Council also sent an appeal letter to the Department of

the Treasury requesting it review the one TGA per base decision. Ron Adolphi, DoD's Director for Financial Commerce, said at the Defense Council's Summit on



"Defense credit unions owe a debt of gratitude to you," wrote Barksdale Federal Credit Union Chairman Virgil Barnette



July 14 that he would look at the issue and keep an open mind.

In response to the appeals by D'Amours and Lundahl, DoD and Treasury reversed their policies and will allow multiple TGAs on military bases—allowing credit unions to compete for commissary services and locations.

"Defense credit unions owe a debt of gratitude to you," wrote Barksdale Federal Credit Union Chairman Virgil Barnette in a letter to D'Amours. "Your efforts to work with Treasury, DoD, and

DeCA will assure equal opportunity for credit unions to participate in DeCA's in-store financial services program," he continued.

Today, 10 million United States servicemen and women go to their credit union for their financial needs. The 300 defense credit unions, with branches in the United States and 11 foreign countries, have assets totaling \$70 billion.



August 6, 1998 — Chairman Norman E. D'Amours (right) meets with Defense Credit Union Council President David C. Lundahl at NCUA headquarters in Alexandria.

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